

Message Text

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53

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 EUR-25 SS-20 L-03 NSC-07 IO-14

STR-08 EB-11 AID-20 XMB-07 INT-08 AGR-20 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 RSC-01 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 DRC-01 /197 W

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R 230922Z JUL 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3493

INFO AMEMBASSY CANBERRA

AMCONSUL HONG KONG

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

LIMITED OFFICIAL USE JAKARTA 9084

E.O. 11652: N/A

TAGS: EGEN, EFIN, EAID, ID

SUBJECT: GOI FINANCE MINISTER'S COMMENTS ON DEVELOP-
MENT FINANCING AND INFLATION

REF: JAKARTA 9024 (NOTAL)

1. DURING CALL ON FINANCE MINISTER ALI WARDHANA JULY
22, AMBASSADOR NEWSOM ASKED MINISTER HOW GOI PLANS TO
FINANCE FOREIGN EXCHANGE COSTS OF SECOND FIVE YEAR
PLAN DEVELOPMENT GOALS, WITH SPECIAL REFERENCE TO
INDONESIA'S EXPECTED ACCUMULATIONS OF FOREIGN EXCHANGE.
MINISTER WARDHANA EMPHASIZED UNCERTAINTIES OF EXPORT
PRICES FOR TRADITIONAL COMMODITIES AND EVEN OF HIGH
FLYERS SUCH AS OIL AND TIMBER. HE ALSO NOTED COMPLETELY
UNEXPECTED MAGNITUDES OF COST OVERRUNS ON CURRENT DEVELOP-
MENT PROJECTS, STATING THAT FOR CURRENT YEAR OVERRUNS
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NOT FINANCEABLE BY ORIGINAL LENDING AGENCIES NOW ESTIMATED

AT \$500 MILLION. SOME OVERRUNS NOW AS HIGH AS ORIGINAL PROJECT COST ESTIMATE. IN VIEW OF MAGNITUDES OF SUCH UNCERTAINTIES AND UNEXPECTED COSTS, MINISTER SAID GOI HAD NOT ESTIMATED WHAT VOLUME OF PROJECTED FUTURE OIL REVENUE INCREASES IT COULD ALLOT TO NEW DEVELOPMENT PROGRAMS. WHILE OPTIMISTIC ABOUT PROSPECTS FOR INCREASES IN FINANCING VOLUMES FROM IBRD AND ADB, HE EXPRESSED DISAPPOINTMENT WITH DIFFICULTIES OF OBTAINING OTHER LESS CONCESSIONAL CREDIT ON THE 15 YEAR TERMS GOI HAD HOPED FOR. HE MENTIONED HIS TALK WITH CASEY OF EXIM AND SAID HE REALIZED EXIM PROBLEMS BUT STILL LOOKED FORWARD TO CASEY'S VISIT AND FURTHER DISCUSSIONS.

2. ON DOMESTIC ECONOMIC SITUATION, WARDHANA FELT IT TOO EARLY TO JUDGE SUCCESS OF GOI ANTI-INFLATION MEASURES BUT SAW SIGNS OF IMPROVEMENT, WITH PRICE INCREASES EASING IN BASIC COMMODITIES AND IN SOME REGIONS (E.G., EAST JAVA) DECLINING. (HE ACKNOWLEDGED THAT IN PARTICULAR SECTORS SUCH AS TEXTILES SOFTENING DEMAND MIGHT ALSO BRING DISTRESS PRICES FOR SOME IMPORTS.) HE EMPHASIZED IMPORTANCE OF BREAKING DOMESTIC INFLATIONARY PSYCHOLOGY SEEN EARLIER THIS YEAR IN SPECULATION REAL ESTATE AND CONSTRUCTION MATERIALS WITH CORRESPONDING INFLATION OF THESE PRICES.
NEWSOM

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INFLATION, PETROLEUM, SUPPLIES, COMMODITIES, ECONOMIC PROGRAMS, FOREIGN EXCHANGE HOLDINGS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974JAKART09084
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740198-0846
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740726/aaaaavym.tel
Line Count: 86
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: JAKARTA 9024 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUL 2002 by boyleja>; APPROVED <20 FEB 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI FINANCE MINISTER'S COMMENTS ON DEVELOP- MENT FINANCING AND INFLATION
TAGS: EGEN, EFIN, EAID, ID
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005